Testimony of

Secretary of Commerce William M. Daley

Renewal of Trade Negotiating Authority

Commerce, Science and Transportation Committee

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Thank you for the opportunity to appear before this Committee on the President's request for fast track legislation. The Commerce Committee has an important role to play in trade matters. Let me open my remarks today by pledging to work closely with you and the Members of this Committee at all stages of negotiations on future trade agreements pursued under fast track, including seeking your advice in setting trade priorities before negotiations, consulting with you as the negotiations progress and finally, seeking to ensure that your views are reflected in the final agreement and in the manner in which it is carried out. As the legislation proceeds through the Congress, we will work with you to ensure that the legislation itself reflects this high level of coordination with this Committee.

This morning, I released export data for 253 U.S. metropolitan areas that I believe are very germane to our deliberations today about trade authority. Exports are becoming increasingly important to the well-being of our cities throughout the Nation, with more than 90 percent of the metro areas examined reporting export sales growth over the 1993-96 period. In fact, some of our star performers are represented on this committee, including Lexington, Kentucky, with a 140% increase in exports; Charleston, West Virginia, with a 130% increase; Augusta, Georgia, and Aiken, South Carolina, with 95% increases; and Kansas City, that great metropolis that extends into both Missouri and Kansas, with a 79% increase.

Results like these compel me to try to dispel a few myths about trade and about fast-track. Fundamentally, just like a general needs tanks to win a war, the President needs fast-track authority to help negotiate trade agreements that knock down barriers to U.S. exports in key markets and in our most competitive sectors. This is in all of our interests, and the first myth I would like to dispel is:

Myth 1: We don't need fast-track.

The jobs of tomorrow are going to go to those who seize the opportunity today. If we choose to stand still, our competitors will move ahead.

Ambassador Barshefsky has laid out the Administration's comprehensive trade agenda for the next several years that would be severely hampered without fast track. Without fast track, key trading partners will not negotiate comprehensive agreements with us. These countries will not provide us with their "bottom line" knowing that the U.S. Congress may alter the terms of what the negotiators agreed to when considering legislation to implement the agreement. No fast track compromises our ability:

o to compete on an even footing in the world's services market, valued at $1.2 trillion;

o to introduce the chance to compete in transparent foreign government procurement, especially in the developing markets where new infrastructure projects will approach trillions of dollars over the next decade; and,

o to eliminate foreign subsidies that compete against U.S. agricultural products and to further open this important market, estimated at $600 billion globally.

No fast track would also hamstring initiatives such as the one just beginning in APEC, where we have identified a number of our most competitive sectors for trade talks. For example, reducing barriers to medical equipment would help U.S. companies like Arbor Technologies in Michigan, a small manufacturer of medical devices, that attributes 20 of its 57 employees to exporting, or Clinical Diagnostics of South Carolina which has added thirteen employees to their initial staff of seven as a result of their first overseas sale last year. Other sectors that the United States has put forward for APEC trade talks include telecommunications and information technologies, chemicals, the automotive sector, oilseeds, energy-related equipment and services, environmental technology and services, and forest products (wood and paper.)

From the Commerce Department's perspective, however, I would like to take a few minutes to focus on where we see competition heating up most, and that is right here in our own hemisphere. The 33 countries that would join us in creating the Free Trade Area of the Americas by 2005 are underpinning our export growth this year -- accounting for nearly *two-thirds* of our export gains *in dollar terms* -- but our competitors are working overtime to change that.

Take Chile. When the U.S. was unable to secure fast-track authority in 1995, Chile broke off discussions with the United States. But Chile did go on to negotiate trade agreements with the four countries of MERCOSUR (Brazil, Argentina, Paraguay and Uruguay), they are in the process of upgrading their agreement with Mexico, and they implemented a free trade deal with Canada just this past July. As a result, U.S. exporters face a Chilean duty of 11 percent on virtually every single product they sell, while their competitors from these countries do not. Already, the American Chamber of Commerce in Chile has been able to identify $0.5 billion in lost U.S. sales. And Prime Minister Chretien of Canada just announced that next January he will lead a "Team Canada" trade mission of several hundred business and provincial leaders to make sure that Canada takes full advantage of its increased access to Chile's market, as well as its plans for Brazil and Argentina where Canada has proposed the start of free trade talks.

But it is not just Chile, and not just Canada, that we need to be concerned about. Europe competes head-to-head with the United States as the major supplier to Latin America. In just the last few years, the European Community has set up 28 "Eurocenters" throughout Latin America to ensure, as French Prime Minister Chirac declared in his visit last year, "The future of Latin America is ... in Europe," not the United States. Taking advantage of our position on the sidelines, the EU -- already the world's largest trading bloc -- is poised for a major expansion in the hemisphere and confidently announced two weeks ago that it would conclude an EU-MERCOSUR free trade agreement before the end of 1999.

So, not only does the United States have the dubious distinction of being the only major country in this hemisphere not to already have a free trade agreement with Chile, but by the turn of the century we may find ourselves disadvantaged across-the-board in markets which by sheer geography ought to be establishing their closest trade ties with us.

U.S. exporters are already feeling the pinch. Stupp Corporation, a producer of custom steel pipe in Louisiana, recently lost out on a pipeline job in Argentina because it simply could not compete with another company that did not have to pay the same duties. They stressed to me that the impact of these lost sales reverberate throughout our economy. The company estimates, that in addition to its own work, winning a $100 million pipeline project like this would:

o require the equivalent of two days of production at a major U.S. steel plant;

o utilize 1,600 rail cars in the transportation of steel and pipe (or alternatively, 67 barges and 1,900 trucks if transported by water and road); and,

o provide more than two months of work for a U.S. pipe coating facility.

When you multiply this impact several times over, you begin to appreciate the dimension of the problem.

Nor are the costs of our inaction limited to Latin America. While we have hesitated to pursue our own interests, the EU has been negotiating trade agreements for its exporters with its own neighbors, the emerging markets of Central and Eastern Europe. On the other side of the world, ASEAN is integrating its own free trade area. The only way to limit the effects of these agreements is to grant the President fast-track authority so the United States can get back in the game -- bilaterally, regionally, multilaterally, and sectorally.

Myth 2: We do not enforce the trade agreements we have.

Just as important as negotiating new market openings is making sure that U.S. exporters can take advantage of the agreements that we have in place. This means that the U.S. government must be vigilant in monitoring other countries' compliance with our trade agreements, and in calling them up short, when we need to.

No country has been more aggressive than the United States in pursuing its trade interests under the improved dispute settlement mechanism of the WTO. We have brought a record number of complaints to the WTO -- 32 so far -- and have either won or settled to our satisfaction all ten that have gone through final resolution, and have panel decisions in our favor on two others that may be appealed. Early victories include issues as diverse as Japan's discriminatory liquor taxes, Canada's restrictions on U.S. magazines, the EU's preferential banana regime, and Korea's shelf-life restrictions on food products that act as a disguised trade barrier. The remaining cases are before panels or in consultation, but I am sure this Committee will be especially interested in the decisions regarding EU, UK, and Ireland local area network (LAN) equipment expected in late November.

We will not hesitate to use all tools available to us to ensure compliance and to eliminate unfair trade practices. That includes Super 301 actions, the latest of which will be announced tomorrow by Ambassador Barshefsky. I don't want to preview this year's announcement, but since Super 301 was reinstituted the Clinton Administration used it to launch 8 cases in 1995 and 1996. Two of these resulted in the favorable WTO rulings I just mentioned, and we have also worked out a solution with the EU regarding their reference prices on grains. The others are still pending before a panel or are in consultation.

At the Department of Commerce, we have redoubled our efforts in the enforcement area, spearheaded by a new Trade Compliance Center to get maximum results from the compliance efforts of our country and industry teams. The Center is accessible to industry and workers to explain what rights and obligations exist under our array of trade agreements. We will help American firms strengthen their negotiating positions with foreign officials and executives. We will work with you and your constituents whenever you come up against resistance to trade agreements, as well as corruption, bureaucratic hassles and flat out unlawful conduct in the course of doing business in foreign markets. This work complements the work of USTR's Monitoring and Enforcement unit.

Unfair competition in our own market can be every bit as damaging as trade barriers overseas, and the Commerce Department will continue to vigorously enforce our antidumping and countervailing duty laws. It is vitally important to protect our workers and companies from the kind of unfair pricing and subsidy practices that once nearly destroyed our semiconductor and steel industries. This is not an abstraction; it translates into American jobs and economic growth. Industries that have suffered injury from unfairly traded imports are using these laws -- we are currently administering almost 400 antidumping and countervailing duty orders.

One prevalent misconception I'd like to dispel is that somehow the "goodwill" engendered by concluding a trade agreement neutralizes our will to insist upon adherence to its terms or to protect our firms and workers from injurious practices. Quite the contrary. Using NAFTA as an example, the Administration diligently pressed to have Mexico accept U.S. product safety data for telecommunications equipment, as required by the Agreement, and forcefully pursued a softwood lumber agreement with Canada and a dumping agreement on Mexican tomatoes. In fact, the mechanisms contained in a trade agreement can make it easier to address the thorny issues, while at the same time providing a venue for finding cooperative solutions even where an obligation may not apply (such as Mexico's streamlined procedure for approving U.S. tires.)

Let me extend my pledge to this Committee to consult closely with you on the Administration's negotiating and enforcement priorities, and especially on the use of fast-track authority.

Myth 3: The United States will give more than it gets in any future negotiation.

The United States stands to gain substantially under more liberalized trade. Currently, we have an essentially open market. Our duty rates are low, and we have little in the way of non-tariff barriers.

By contrast, our most competitive products still face significant barriers overseas that can only be overcome by fast track. For example, in the automotive sector, where collectively parts and vehicles' exports account for more than 10 percent of our exports, we face average tariffs 5 to 10 times as much as our duties in the ASEAN market, where sales are expected to top two million units by the year 2000.

But tariffs are only the most direct form of trade barrier, and today's negotiations must encompass a comprehensive set of rules to both remove existing non-tariff barriers and to ensure that new ones don't take their place. These negotiations will be about ensuring that newly opened markets remain that way, that intellectual property is respected, and that we increase the transparency with which we do business. This can only benefit our entrepreneurs.

For example, the United States is the world leader in discovering and developing new medicines, and our pharmaceutical industry already earns two-fifths of its income from exports. But tariffs, inadequate intellectual property protection, discriminatory government procurement practices, and other barriers limit the ability of U.S. companies to compete on a level playing field. Our industry faces up to 14 percent tariffs in Brazil, the fourth largest pharmaceutical market in the world, while our Argentine competitors enter their pharmaceuticals duty-free. When the EU completes its free trade talks with MERCOSUR, it too will have a significant price advantage over our industry.

I know that some argue that the investment provisions in modern trade agreements encourage plants and capital to move abroad, but as the first such agreement, NAFTA has not led to an exodus of U.S. capital. In fact, it has had no discernible impact on aggregate U.S. investment levels. Looking at just one oft-cited sector by way of example, since NAFTA the Big Three U.S. auto companies have invested $39 billion in new plant and equipment in the United States, while investing only $3 billion in Mexico. At the same time, several major foreign producers, including Toyota, Mercedes and BMW, have chosen the United States as the most competitive site for their new North American plants.

A stronger argument can be made that *trade barriers* induce U.S. companies to move overseas, since they preclude access to foreign markets any other way. And these protected markets can be excellent platforms for competing globally against U.S. output, including in our own market. We need fast track to aggressively go after foreign trade barriers. Put simply, the Administration wants to have market forces influence trade and investment decisions, not foreign government policies that distort the marketplace. In today's global economy, there will always be some reasons to produce in several markets, whether it is to be close to inputs or to better serve customer needs. But with our competitive strengths, the U.S. will remain an attractive investment site, as evidenced by the nearly $800 billion in total private business fixed investment in the United States last year alone. (To put this incremental investment into context, it is somewhat larger than the entire Mexican economy.)

Myth 4: Trade agreements are for big business.

Trade agreements are for all U.S. companies and all U.S. workers. Trade plays a key role in driving our economic engine and has accounted for one-third of our economic growth in the last four years. In fact, without these export gains, our GDP today would be $230 billion lower than it actually is.

The dollar impact of increased export sales reverberates throughout our economy, and small and medium sized companies are the fabric of our export base. Some of them may not know it, as their product is incorporated by their domestic customer into a product that is ultimately exported. Boeing Corporation, for example, procured more than $13 billion in components, parts and other goods and services from suppliers across the United States, many of them small companies.

But increasingly, small companies are doing the exporting themselves. The Department's Census Bureau has been able to identify more than 113,000 known exporters. The bulk of them -- 108,000 -- consists of small and medium sized firms, those with less than 500 workers. Their ranks are growing in terms of their contribution both to the total number of U.S. exporters and to the total value of our foreign sales. These small and mid-sized companies export more than $100 billion, indicative of about 30 percent of our total merchandise exports (1992, latest data available).

Among these companies are:

o the smallest of firms, like the 6-employee International Student Exchange Cards, Inc., in the Chairman's home state, for whom exports account for 60 percent of their business;

o JWH Industries of South Carolina whose overseas sales of its unique environmental technology based on earthworms allowed it to double the number of its farm sites and its staff (from 7 to 15)**;**

o Systems & Electronics of Missouri whose $12 million sale to Israel this summer saved 200 jobs at its St. Louis plant.

All of these companies, by the way, are among the nearly 4,000 U.S. firms which credit the Commerce Department with helping them initiate or expand export opportunities last year.

Nonetheless, anecdotes alone cannot begin to convey the stories of the more than 12 million U.S. workers whose livelihoods today depend on exports. The transformation of our economy has been so fundamental that today exports account for *one out of every five manufacturing jobs* and *one out of every three acres planted*.

Myth 5: Developing nations can't afford to buy our goods, and we cannot compete with them because of their low wages and lax environmental laws.

It was not that long ago that a best seller titled The Rise and Fall of the Great Powers included a chapter on "The United States: The Problem of Number One in Relative Decline." But we have to shed that mind set. Defying conventional wisdom, and through a period of difficult restructuring, the United States has resumed its place as the world's Number 1 exporter. We have rejuvenated our automobile and semiconductor industries, and recovered our crown as the world's largest producer in industries once thought inexorably squeezed by foreign competition from both the high- and low-end.

For five years in a row, the United States has been judged as the most competitive economy in the world by the prestigious World Economic Forum. This group's assessment looks not just at wages -- we *want* to be a high-wage country-- but also at other important competitive factors like technology, management and labor flexibility.

We know export-related jobs pay roughly 15 percent better than jobs in the non-traded sector. More and more U.S. jobs are dependent on exports -- an additional 2.2 million workers since 1992. Rising exports increase U.S. living standards by putting our resources to work at what we do best. These overall income gains have not come by sacrificing workers at the bottom of the economic ladder. As our economy continues to grow, the real incomes of every segment of the U.S. workforce increased between 1993 and 1996, with the largest percentage increase for the lowest-paid workers.

This does not mean we can afford to rest on our laurels. While America can be proud of the best firms, the finest workers, and the most innovative products, we are also proud of the rules we live by to keep our workers safe and our communities clean. There are labor and environmental issues we must address with our partners, and trade is a good avenue to do so because it delivers as it demands responsibility. American leadership in the global economy carries an obligation with it to support and encourage labor standards and environmental protections around the world. The President has pledged that free trade will not lower our standards, but will be a way to persuade other countries to build on the prosperity that comes with trade and lift their own people up.

Finally, it is simply not true that we cannot sell overseas to developing countries. Ninety-six percent of the world's consumers live outside of the United States. Over the past eight years -- during which our global exports almost doubled -- the developing nations accounted for about half of that growth. Where in 1988 the developing countries purchased just over one-third of our exports, they now buy more than 40 percent. As these countries develop, they will become an even more attractive market for our products.

We fully expect that over the coming decade, developing countries will grow faster than our industrial partners, and therefore their share of our exports will grow as well. We believe that participating in these export opportunities will be critical to our overall economic well-being. If we can tap these markets, we can expect to see exports account for about 20 percent of our national income by 2010, about double its current contribution.

Conclusion

Let me conclude by mentioning the biggest myth of all: that is, if we put off the decision on fast-track authority now, we can do it "right" later. The time is now. This legislation is in our national interest, and in the coming weeks we need to find ways to bridge the differences between us to achieve the broadest possible bipartisan support.

Thank you.